

PUBLIC

Minutes of the Meeting of the Irish User Committee of Euroclear UK & Ireland ("Irish UC" or the "Committee") held on 10 April 2018

Present: Brian Healy (Chair); Neil Colgan; Stephen Dwyer; Albert Farrell; Malcolm Fitzgerald; Donald Halligan; Niall Harrington (by phone); Stephen Judge; Joe Molony; Darren Murray; Claudine O'Connor; Neil Sharp; David Trost.

In attendance: Stephen Empey; Aidan O'Carroll; Simon Sloan; David Todd

Apologies: Sue Concannon; Sinead Kelly; Cathal O'Connor; Susan Stenson

Euroclear attendees: John Trundle; Jennifer Parker (Secretary); Cevdet Sumbultepe; Paul Symons; Christopher Twemlow.

1. Welcome

The Chair welcomed the attendees to the meeting. He noted that this ad hoc meeting had been convened to consider the consequences of regulatory interactions following the last User Committee meeting. These had superseded the previous proposal under consideration to ensure continuity of settlement services in respect of Irish corporate securities within a 'hard Brexit' timeline. Accordingly, the focus of the Committee would be to consider the current position and potential next steps.

2. Resignation and Appointment of Committee Secretary

Mr Healy reported the resignation of Susan Stenson as secretary to the Committee. The Committee recorded its particular thanks to Mrs Stenson for her support of both the Irish User Committee and its predecessor, the Irish Market Advisory Committee.

It was proposed that Ms Parker, of Euroclear UK & Ireland Limited, be appointed secretary to the Committee with immediate effect. The proposal was **approved** by the Committee.

3. Post Brexit CSD and settlement arrangements – update

The Committee discussed the presentation tabled at the meeting.

Mr Trundle reminded the Committee of Euroclear's announcement dated 29 March 2018 that it would cease work on the development of *Euroclear Ireland* as originally proposed. He noted that the proposal had been subject to a number of factors outside Euroclear's control, including approval by stakeholders and regulators.

Following recent discussions with the Central Bank of Ireland and the Bank of England, Euroclear had ceased work on the development of Euroclear Ireland. Mr Trundle outlined that, subject to suitable transitional arrangements being agreed between the UK and the EU, EUI intended to continue to offer on an interim basis after March 2019:

- settlement services in respect of Irish securities against EUR, GBP and USD;
- settlement services against EUR (in addition to GBP and USD) for UK, Crown Dependency and international securities.

This should mean no change in the settlement services offered by EUI for Irish corporate securities, or against EUR, until the end of 2020. However, continued service provision by EUI would also be subject to dependencies outside EUI's control, including regulatory and legal approvals. In particular, the Committee noted that there remained a risk to the Irish market as the Withdrawal Agreement between the UK and the EU remained subject to finalisation.

In response to a suggestion from Mr Farrell, Mr Trundle noted that any consideration of a stand-alone Irish CSD as a "clone" of CREST would need to take into account the extent to which such a model would meet the needs of the Irish market and the Irish issuers, as well as the costs of development and ongoing operation. No detailed costs analysis had been undertaken to date, but was likely to be significantly higher than the original proposal, so such a model was very unlikely to be viable.

The Committee noted its considerable disappointment that the proposed creation of Euroclear Ireland would not proceed as foreseen, although it thanked Euroclear for the work it had carried out to date. The Chair invited representatives from the Central Bank of Ireland to comment. Mr Sloan reminded the meeting of the separation of functions between the authorisation and regulatory teams at the Central Bank but noted the conclusion of the Central Bank of Ireland and the Bank of England that the proposed model presented significant regulatory and supervisory challenges.

The Committee discussed the matter at length and considered the Minister of Finance's policy statement in July 2017 which indicated a clear preference for an Irish CSD.

The Chair commented that the position had fundamentally changed as, although there was now a longer timeframe for the delivery of a solution to the Irish market (end 2020, subject to the previously discussed caveats), work would now need to restart on defining a potential solution.

Mr Symons confirmed that Euroclear remained committed to supporting the authorities, the Irish User Committee and other stakeholders in the development of potential longer term option(s) for Irish securities settlement. However, the principles that guided the proposed development of Euroclear Ireland (as set out on page 10 of the Whitebook published in February 2018) would need to be reviewed and revised by the users and the authorities before further investment could be made by Euroclear. He noted that any potential longer term option would need to be:

- implemented in time for the end of the transition period (i.e. end of 2020);
- based on existing settlement models available within the Euroclear group;
- economically viable and attractive (and long term) for Euroclear.

Mr Symons added that any possible future Euroclear offering was likely to have an impact on existing Irish securities industry standards, operations and structure (and would not involve sharing of technology or services with EUI).

The Committee considered and commented upon the following principles:

- *location of an Irish issuer CSD*: the Committee agreed that this would be a key strategic and political starting point, taking into account the Ministry of Finance policy statement from July 2017. There was a general consensus that a local establishment would be preferred, although cost would be an important factor. The Committee highlighted the significance of dual listings for a number of Irish issuers. The Committee considered whether Irish gilts as well as equities should be within scope and differing views were expressed.

Mr Symons observed that, in many jurisdictions, the creation of a new market infrastructure would be led by the public sector, with the engagement of market participants. It would be important to ensure the engagement of the regulators throughout this process;

- *commercial bank money and central bank money settlement*: Mr Judge noted that gilts were settled efficiently in Euroclear Bank and the NTMA did not currently see a demand for central bank money settlement. The NTMA would be led by buyer demands;
- *multi-currency settlement*: the Committee noted that this represented an important matter of principle to address. Multicurrency settlement could be available through a Euroclear Bank offering but ESES could provide only Euro settlement;
- *direct Irish legal title holding and indirect holding*: the Committee noted that "name on register" was a particular UK/Irish practice. It was agreed that the relative importance of this matter should be considered in the context of the pros and cons of the models;
- *services required from any long term solution, including stamp assessment, paper interface, T2S connection, etc*: the Committee observed that stamp assessment and collection would be of close interest to the Irish revenue authorities

The Committee agreed that alignment on the principles by the users and the authorities would shape the potential future offering and any investment decisions in a new longer term solution for Ireland.

Mr Twemlow presented Euroclear's high level review of three potential service offerings after 2020: including the pros and cons of each:

- Euroclear Bank;
- ESES;
- Euroclear Ireland operating a 'clone' of the CREST system.

He underlined that both the Euroclear Bank and ESES options would require adaptation by the market to fit the current service offering. In addition, any Euroclear service offering would be subject to its own internal governance process and buy-in from relevant external stakeholders including the authorities.

The Committee noted that there were similarities between the Euroclear Bank and ESES proposals. The main differences were that Euroclear Bank offered commercial bank money, multicurrency settlement and had a tax collection service whereas ESES offered central bank money in euros but did not offer multicurrency settlement or tax services. The Chair noted that Euronext was currently rolling out a new trading platform and it was foreseen that Euronext Dublin would transition to the new platform in due course. The meeting noted that ESES was currently the settlement platform for Euronext securities and that this was a relevant consideration in the development of any future model.

Mr Trundle commented that much of the discussion had focused on the role of the Issuer CSD. It was necessary for issuers to have a place of record. He reminded the meeting that this did not constrain the Investor CSD model, and that EUI would continue to maintain its international links following Brexit which would be available to investors.

Mr Twemlow highlighted two material issues with the CREST "clone" proposal, which EUI currently considered rendered this a non-viable option:

- it was likely to offer Euro settlement only. The Committee commented that this would represent a major issue for dual listed Irish companies;
- substantial investment and running costs were likely to be incurred.

The Committee expressed interest in developing its understanding of the likely costs of this model. However, following discussion, the Committee agreed that clear guidance from the Irish authorities and other stakeholders would be required before considering any of the options further.

Next steps

The Committee agreed that the next steps were to:

- establish the core principles on which any future solution would be based;
- seek engagement with the authorities, particularly the Department of Finance and the Central Bank of Ireland.

The Chair proposed that a sub-set of the Committee be established to take discussions forward with the authorities. Various members of the Committee offered to participate and the Chair agreed to reach out to the Department of Finance and the Central Bank of Ireland.

Euroclear proposed to set up workshops with key stakeholders to explore the different options and set top-level direction.

The Committee repeated its thanks to Euroclear for the work performed to date and asked that it be recorded that Euroclear had done everything it could to develop a workable solution and the stopping of the Euroclear Ireland proposal was due to factors beyond Euroclear's control. Mr Trundle thanked the Committee for its continuing support.

4. AOB

There being no further business, the Chair closed the meeting.

Date of Next Meeting – 31 May 2018


Signed: Brian Healy